

Letter of Transmittal
November 15, 2004

Honorable Mayor, Common Council, and Finance Committee:

Pursuant to Section 13-2.A, Municipal Code of the City of Franklin, submitted herewith is the 2005 Annual Budget for the City of Franklin as adopted by the Common Council on November 9, 2004.

Introduction

The budget process begins in April/May with the preparation of a budget forecast. The forecast calculates 2005 costs based on a set of cost assumptions applied to the 2004 approved work program. The forecast was completed May 21, 2004. At that time the departments were requested to provide their input on personnel needs, capital outlay needs, equipment replacement needs, street improvement needs, capital improvement needs and related debt service needs for 2005. That information plus the forecast was provided to the Mayor. The Mayor and staff reviewed the forecast and determined what additional personnel, capital outlays, equipment replacement, street improvement, capital improvement and related debt service would be included in the 2005 Mayor's Requested Budget. That information was communicated to the departments. The departments then prepared their Department/requested budgets and submitted them to the Director of Finance & Treasurer for compilation. The Mayor met with the Director of Administration and Director of Finance & Treasurer to finalize his 2005 requested budget. The 2005 Requested Budget was submitted to the Finance Committee on September 16, 2004. The Finance Committee met with the departments, review the requested budget and recommended a budget to the Common Council. That budget was reviewed at a joint meeting with the Finance Committee. A public hearing was held on November 8, 2004 and the final budget was adopted on November 9, 2004.

The budget document consists of three sections. Summary information providing an overview of the budgets including assessed valuation, tax levy and tax rate information. Detail departmental budgets for the City of Franklin General Fund followed by budgets for the Library, Sewer, Capital Projects Funds and the Debt Service Fund.

Assessed Valuation

Property is assessed based on its value on January 1st. The year 2003 was the last reassessment of property values. The assessed value on January 1, 2004, exclusive of the TID value increased from \$2,323,110,110 on January 1, 2003 to \$2,436,458,690 or a 4.88% increase. The 2004 assessed values are approximately 95% of fair market value. The assessed value of all property from new development increased in during the 2003 year by \$113,348,580.

Tax Levy and Tax Rate

The tax rate is the result of the tax levy required to finance the activity in all budgeted funds divided by assessed value of the city. The prior year tax rate multiplied by the new construction value provides the amount of growth tax levy that is \$771,574. The tax levy required to finance the adopted 2005 Annual Budget (all funds) has increased by \$1,085,689 from \$15,813,611 to \$16,899,300 or 6.87% increase.

The result is a tax rate of \$6.936 per \$1,000 of assessed value compared to last years tax rate of \$6.807 per \$1,000. The percentage tax rate increase is 1.89%. There is new tax levy revenue of approximately \$771,000 from growth in City of Franklin properties that accounts for the differing percentage impacts.

The Breakdown by Fund reflects the tax levy requests by fund.

City of Franklin Tax Levy Information

City Tax Rate Components	2005 Budget Tax Levy	2004 Budget Tax Levy	Tax Levy % Change	2005 Budget Tax Rate	2004 Budget Tax Rate	Tax Rate % Change to Total
Capital Outlay	333,000	223,000	49.33%	0.1366738	0.0959920	42.38%
Equipment Replacement	250,000	255,000	-1.96%	0.1026079	0.1097666	-6.52%
Street Improvement	730,000	700,000	4.29%	0.2996152	0.3013202	-0.57%
Debt Service	<u>2,310,000</u>	<u>2,410,211</u>	<u>-4.16%</u>	<u>0.9480973</u>	<u>1.0374932</u>	<u>-8.62%</u>
Subtotal	3,623,000	3,588,211	0.97%	1.4869942	1.5445721	-3.73%
Library Program	976,000	884,500	10.34%	0.4005814	0.3807396	5.21%
General Fund Program	<u>12,300,300</u>	<u>11,340,900</u>	<u>8.46%</u>	<u>5.0484336</u>	<u>4.8817746</u>	<u>3.41%</u>
Total	16,899,300	15,813,611	6.87%	6.9360092		1.89%
Prior year levy	<u>(15,813,611)</u>	<u>(15,606,851)</u>				
Increase in tax levy	1,085,689	206,760				

General Fund Summary

The General Fund tax levy revenue for 2003 was \$10,699,359. Tax levy revenue in 2004 was budgeted at \$11,340,900 a 6.0% increase. The proposed tax levy revenue for 2005 is \$12,300,300, a 8.5% increase. The reasons for the growth of the tax levy are the use of the growth in taxes due to new development in this fund and the decline in non-tax levy revenue (See following paragraph).

The non-tax levy revenue for 2003 received was \$7,845,349 compared to a 2003 budget of \$7,935,809, a 1.1% decrease. The 2004 budget anticipated \$7,594,400 and is estimated to receive this year \$7,452,993, a 1.9% decrease. The projection for non-tax levy revenue for 2005 is \$7,518,700, a 1.0% decrease from the 2004 budget.

The major reasons for the decline in non-tax levy revenue are:

- The Council policy decision to transfer over a five year period the landfill siting revenue from the General Fund to the Debt Service Fund at 20% or about \$200,000 per year with General Fund tax levy revenue making up this shortfall in anticipation of this revenue source ending in 2007. The Debt Service fund uses these funds half for tax levy reduction and half for debt retirement. In 2005 60% of this revenue will be recorded in Debt service and 40% in the General Fund.
- The decline in shared revenue and expenditure restraint payments. In 2004 the total payments were \$234,892 lower than 2003. Now in 2005 the total payments will be \$62,714 lower than in 2004 with expenditure restraint and utility payments accounting for the decline.
- The decline in Intergovernmental charges result from the expectation of lower revenue from ambulance reimbursements as Milwaukee County reduces its support of this program.
- The lower level of interest rates continues to adversely impact the interest earnings as the reinvestment rate continues to be lower than the rate earned on maturing investments.

Increases in other non-tax levy revenue have not been able to overcome these factors.

The General Fund actual expenditures for 2003 were \$17,986,285 and under expended that budget by \$1,011,651. Some of the under expenditures were the result of positions that were budgeted but frozen by the Council and favorable experience in 2002 that allowed the group medical charging rate to be less than budgeted. The budget for 2004 of \$19,715,300 is a 3.8% increase over the 2003 budget. The current estimate to be expended this year is \$19,308,557, a 2.1% decrease. The decrease from budget in this years estimate is primarily caused by vacancies in positions, less some increased overtime and the existence of a larger contingency budget that will in all likelihood not be expended.

The budgeting overtime philosophy was maintained at an estimate of an average years exposure with the understanding that the departments will be able to request additional appropriations from fund balance in a year in which there are above average departmental needs for overtime costs. A similar philosophy was continued for salt purchases, fuel and claims against the City.

When the 2005 preliminary requested operating budgets were compiled they were \$455,000 over the expenditure restraint limit. Changes that were made by the Mayor reducing that amount by \$490,000 resulting in continued qualification for the expenditure restraint program. However due to a lower inflation estimate an additional \$66,000 in General Fund expenditures were reduced by the Finance Committee to continue the expenditure restraint qualification.

Budget Transmittal Letter
November 15, 2004

Maintaining that qualification as we look ahead to the 2006 budget year is a major concern. In the 2005 forecast \$489,064 was required for the cost of salaries increases and \$391,977 for the cost of benefit increases to existing staff. The total of those two components of \$881,041 exceeded the revenue that was received due to the growth in the community of \$771,000 by \$110,000 without considering non-payroll increases, needs related to increased staffing due to growth of the community and other special needs. In 2004 we also had available a larger than normal contingency budget that was able to offset some of the increase. For 2006 the growth in assessed value will most likely be smaller, the wage increases because of existing contracts will be similar, the benefit increases hopefully will not be as large and we will not have a sizable contingency budget to offset some of the increase. The City may have to consider transferring, if possible, some costs out of the General Fund to be able to continue to participate in the expenditure restraint program, providing it is still part of the approved state budget.

Library Fund

The Library is requested funding of \$1,016,667 an increase of \$63,895 or 6.7% in support of Library activities. The increase includes .51 FTE in new positions. The requested budget approved provides that \$30,000 be made available for Library operations from reciprocal borrowing revenue or if reciprocal borrowing revenue is not available in 2005 then from the Library fund balance made up of the 2003 reciprocal borrowing revenue already received and the 2004 estimated reciprocal borrowing revenue to be received.

Equipment Revolving Fund

The Equipment Revolving Fund accounts for the purchase of various types of motorized equipment. New equipment purchased by other funds and replacement equipment purchased is placed on a depreciation schedule in the year acquired. Replacement is made based upon the estimated useful life of the equipment. Funding from the tax levy should approximate the annual depreciation of the replacement value attributed to the city's total fleet based on estimated useful life. The tax levy budgeted (\$250,000) represents only 58% of the tax levy needed according to the fund policy. Replacement expenditures totaling \$280,000 have been requested for 2005.

Capital Outlay Fund

The Capital Outlay department requests for 2005 totaled \$727,192 compared to \$863,075 of requests in 2004. The Mayor reduced the departmental requests by \$296,000 to \$431,192 that amount compares to the \$479,025 in the 2004 adopted budget. The related tax levy was raised in 2005 by \$110,000 above the 2004 tax levy to get tax levy in this fund closer to the annual tax levy needed to make annual capital outlay purchases.

Street Improvement Fund

The Street Improvement Program is a separate capital projects fund to give visibility to these activities. Many of the City of Franklin streets were reconstructed at the time sewer was installed in various parts of the City 25 to 30 years ago. Many of those streets will need to be reconstructed in the next few years. Funding is being increased in this fund to be able to handle those additional road reconstruction projects. Tax Levy support is increased to \$730,000 in 2005 from \$700,000 in 2004.

Capital Improvement Fund

The Capital Improvement Plan is used to project public improvement needs for the coming years. The Capital Improvement Fund uses this five year forecast for planning purposes. Items contained in the Capital Improvement fund are financed with existing resources, resources from other funds and from the issuance of debt. Major items in the 2005 budget are continued funding for Industrial Park Road Improvements (a five year project), Southwood watershed improvements and Park development projects. No borrowing is anticipated for the 2005 projects.

A 2005 budget for the Capital Improvement Fund is prepared each year as the first year of a five year forecast. The budget will be the amount presented for Common Council approval. Projects that have Common Council approval will receive a specific budget request. For those projects that have not yet had Common Council review and approval an unallocated total appropriation is requested.

Sanitary Sewer Fund

The Sewer Fund receives its revenue from user fees and interest income. Its expenditures are to MMSD, salaries, benefits, capital assets and other costs of providing the sanitary sewer activities. The Sewer Fund is continuing its sewer rehabilitation program resulting in a budgeted reduction in fund balance.

Debt Service Fund

No debt was issued again in 2004. The City plans to issue Debt every other year. In 2004 internal financing was used for the Briarwood sewer project. The advantages of internal borrowing include the avoidance of bond issuance costs. Internal borrowing will be considered first should borrowing needs arise. Also continuing in 2005 is the transfer of landfill siting fees to be recorded as debt service revenue. In 2005 60% of the siting fees will be recorded in the Debt Service Fund. By doing so the debt service tax levy has been able to reduce Debt Service tax levy by \$100,000. If this process is continued for another two years three million dollars of indebtedness will be able to be retired earlier than currently scheduled over the following five years.

Budget Transmittal Letter
November 15, 2004

Water Utility

No information is available on the budget for the Water Utility at this time. The approving body for the Water Utility is the Franklin Board of Water Commissioners. Information will be included in the 2005 City of Franklin Annual Budget book.

Conclusion

The year 2005 has benefited from a higher level of growth than achieved in recent years. While shared revenues were forecast \$51,600 lower than received in 2004, the amounts calculated by the State show that the actual amount received will be \$73,000 lower and we will not know until late next spring if the State will be honoring this amount in their next biannual budget or proposing even lower 2005 shared revenue amounts. New positions totaling 3.09 FTE have been added to the budget and two existing positions one in the Police and one in dispatch remain authorized but unfunded in the 2005 adopted budget.

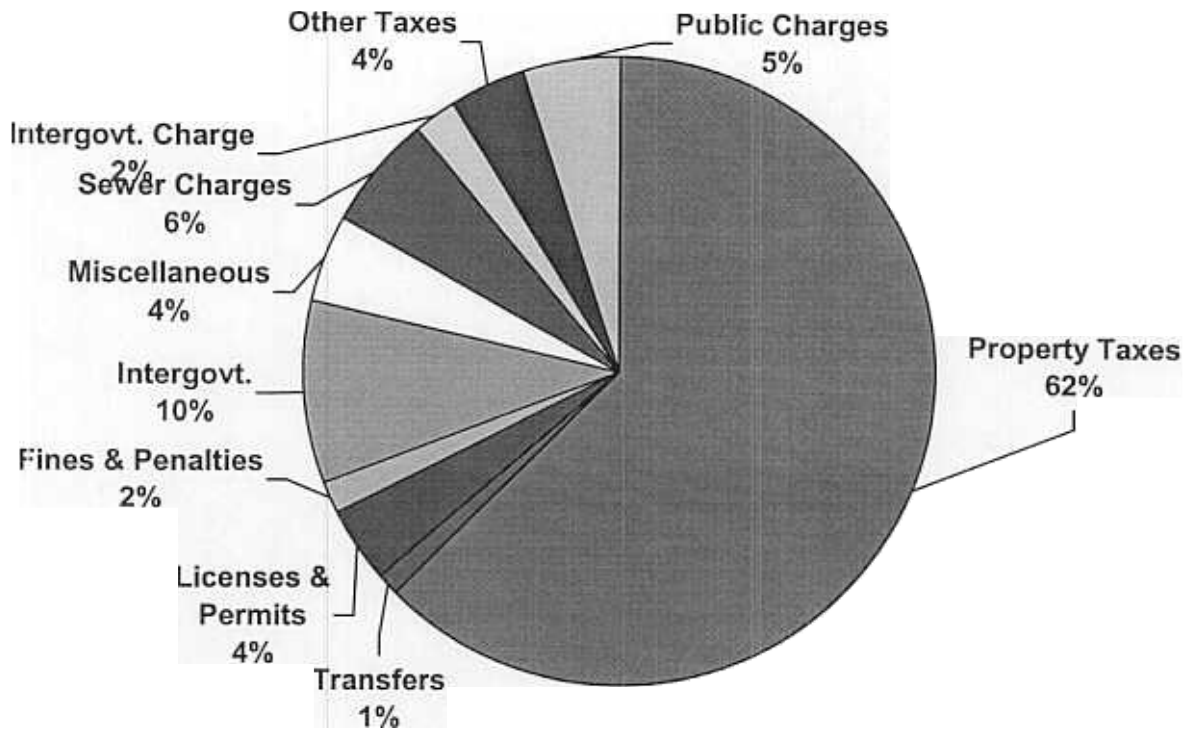
The Library funding in the proposed budget is at the level requested by the Library Board. Combined Capital Projects spending is at the approximate same level as the prior year although the mix of spending is changed. The Capital improvement budget is funded at a minimum level. Debt service costs continue to be reduced by transferring some revenue from the General Fund resulting in less debt service tax levy being requested.

After many changes the 2005 Adopted Budget was approved with an inflationary increase in the tax rate of 1.89%. The result of these actions is a tax levy increase of 6.9% due to both growth and increase in the tax rate. Franklin continues to be a growing community and its service needs will continue to grow.

Respectfully submitted

Calvin A. Patterson, CPA
Director of Finance & Treasurer

2005 Budgeted Revenue



2005 Budgeted Expenditures

